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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

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Report of the Secretary-General**

Summary

Pursuant to General Assembly resolution 60/188, the present report provides updated information on the implementation of the Monterrey Consensus of the International Conference on Financing for Development, including concrete recommendations for follow-up action. It should be read in conjunction with the forthcoming reports of the Secretary-General on the international financial system and development, external debt crisis and development and international trade and development, the note by the Secretary-General on coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus and the 2005 World Summit Outcome (E/2006/48), and the summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (A/61/81-E/2006/73). It also incorporates the implications of the Outcome of the 2005 World Summit for the financing for development process.

The report reflects progress in the areas of mobilizing domestic resources, in increasing both official assistance and private financial flows and in providing more extensive debt relief. However, progress in trade, which has a larger and more permanent potential benefit for developing countries, has stalled and prospects for completion of the Doha round by the end of 2006 are negligible. It outlines the activities undertaken to ensure the participation of all major stakeholders through continued discussions of issues relevant to the follow-up process.

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** The present report was prepared in consultation with the major institutional stakeholders in the financing for development process. However, responsibility for the contents of the report rests solely with the United Nations Secretariat.

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I. Introduction

1. The 2005 World Summit provided the opportunity to reflect on progress made since the Millennium Declaration and on subsequent changes in the international political and economic environment. It involved a broad assessment of the measures that needed to be taken in the new circumstances to revitalize consensus on key challenges and priorities to ensure progress in the areas of development, security and human rights. It sought to convert that consensus into collective action to be taken to provide a global framework for the achievement of the development aspirations of those who still live in poverty, in fear for their personal security and without the enjoyment of basic human rights. In its efforts to expand the horizons embodied in the Millennium Declaration, the Summit Outcome recognized the importance of the mobilization of financial resources and the effective use of those resources in developing countries and in countries with economies in transition for their development. It placed the Monterrey Consensus at the centre of the global partnership for development necessary to achieve the internationally agreed development goals, including the Millennium Development Goals. It thus reinforced the holistic approach of the financing for development process to encompass all of the internationally agreed development goals that have been adopted by Member States at the summits and conferences held by the United Nations over the past decades.

II. Mobilizing domestic financial resources for development

2. The major source of finance for development lies in a country's domestic resources. Therefore, as indicated in the Monterrey Consensus, the main responsibility for development lies in the nationally owned policies that ensure that a country's own resources are fully mobilized. To this end, Governments in developing countries have continued to take concrete steps to implement sound macroeconomic policies, improve governance, fight corruption and provide more balanced macropolicies to support expansion of the private business sector.

3. One of the most important domestic resources available to support development is the labour force. Full mobilization of that resource requires the availability of suitable employment opportunities and the provision of education and training to improve skills and productivity. The ministerial declaration adopted at the high-level segment of the substantive session of the Economic and Social Council in July 2006 reiterated the call made at the 2005 World Summit to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of relevant national and international policies and national development strategies, including poverty reduction strategies, as part of efforts to achieve the internationally agreed development goals, including the Millennium Development Goals. The declaration noted in particular the necessity to mainstream youth employment into national development strategies and agendas.[1]

4. Equally important is the fight against corruption, both within national economies and in international intercourse. The United Nations Convention against Corruption provides support for the required partnership between developed and

[1] For the draft declaration, see E/2006/L.8.

developing countries in fighting corruption. Since its registration in December 2005, the number of signatories has risen to 140, and it has been ratified or approved by the national Governments of 58 countries.

5. In addition, the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee), in its April 2006 communiqué, called on the World Bank to lay out a broad strategy for helping member countries strengthen governance and deepen the fight against corruption, working closely with the International Monetary Fund (IMF), other multilateral development banks and the membership to ensure a coherent, fair and effective approach and provide clear guidelines for their operations in that regard.

6. It is also important for attention to be given to the constraints on resource mobilization created by governance structures and institutions. Experience suggests that a gradual approach to removing such constraints is most effective. When governance reform creates shifts in the distribution of income, complementarity will be necessary, between not only economic reforms, but also between economic and social management. It is difficult to assess institutional quality and forms of good governance, as experiences of successful transformation are country- and time-specific.[2] Care is thus needed in interpreting global measures of governance as indications of measures to be taken as part of national development strategies. More experience in the use of, and more investment in, specific, actionable governance indicators is thus required.[3]

7. In support of such ongoing efforts to improve domestic resource mobilization, the Summit Outcome committed all developing countries to the definition and implementation of national development strategies by the end of 2006. The main focus of national development strategies should be a more concrete specification of the goals chosen by developing countries through domestic dialogue, and a precise analysis and specification of the policies required to achieve them. Of particular importance is the specification of the resource requirements. That will include means for improving the mobilization of domestic resources and the provision of longer-term, more predictable aid flows from donors, and an increase in the share of aid that is channelled through national budgets. The intention is to ensure that countries actively consider and implement measures to achieve all the internationally agreed development goals, including the Millennium Development Goals, in their development strategies.

8. The formulation of appropriate national strategies must be supported by an appropriate assessment of the contribution of external resources in order to produce a debt structure that ensures that the strategies are viable on a long-term basis. That will include general application of debt relief initiatives beyond the Multilateral Debt Relief Initiative (see para. 48). In addition, measures in the area of trade, including aid for trade, will be crucial to the specification of national development strategies (see para. 28). The full cooperation of all States and multilateral stakeholders in support of the process will be as important as the debt, finance and trade aspects of those strategies.

[2] See the analysis in *World Economic and Social Survey, 2006: Divergent Growth and Development* (United Nations publication, Sales No. E.06.II.C.1), chap. V.

[3] See *Global Monitoring Report 2006: Millennium Development Goals: Strengthening Mutual Accountability — Aid, Trade and Governance* (Washington, D.C., World Bank), part II.

9. Low-income countries face special constraints in creating the appropriate domestic environment for public and private coordination of their efforts to ensure full mobilization of domestic resources. Poverty reduction strategy papers (PRSPs), prepared by Governments through a participatory process involving domestic stakeholders and external development partners, can provide the framework for their national development strategies aimed at overcoming these constraints. PRSPs also provide the possibility to augment a country's domestic resources since they are a requirement for concessional assistance from the World Bank (through the International Development Association (IDA)) and IMF (through the Poverty Reduction and Growth Facility). In addition, they are the basis for the provision of debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. As a result of that approach and international concessional assistance from institutions such as the World Bank and IMF, PRSPs are currently on the agendas of about 70 low-income countries around the world. As at the end of June 2006, 50 full PRSPs had been circulated to the Executive Boards of IMF and the World Bank, and 46 countries had PRSPs in place.

10. The core principles underlying the poverty reduction strategy (PRS) approach are that efforts be: (a) country-driven, with broad-based participation by civil society in the adoption and monitoring of PRS; (b) results-oriented and focused on outcomes that benefit the poor; (c) comprehensive in recognizing the multidimensional nature of poverty; (d) partnership-oriented, aimed at improved coordination between all development partners; and (e) based on a long-term perspective of the challenges of and need for commitments to reduce poverty. However, since the Millennium Declaration, countries have been urged to expand the latter objective by placing the Millennium Development Goals at the centre of poverty reduction strategies. A recent in-depth assessment of the approach[4] found progress in making it an operational framework for scaling up efforts to reach the Millennium Development Goals.

11. To augment its contribution to achieving the Millennium Development Goals, the PRS approach could be strengthened to ensure that it supports the mutual accountability and shared responsibility between development partners embodied in the Monterrey Consensus and reaffirmed in the 2005 World Summit Outcome. That would require the inclusion of the Millennium Development Goals in PRSPs, linking them to specific policy actions, appropriately modified to reflect specific national circumstances, in addition to linking them to the medium-term expenditure framework and to the annual budget. That would help translate the goals of PRS into concrete, monitorable and prioritized public actions. Such linkages would also make Government policy intentions clear to parliaments and to other domestic stakeholder groups, and to external development partners. It is important to note that that would require both early and predictable, longer-term donor commitments, and an increase in the share of assistance channelled through or reflected in Government budgets.

12. Finally, the PRS approach can more fully support the Millennium Development Goals by recognizing country-specific circumstances and constraints to development, by strengthening domestic decision-making processes and systems, including budgets, and monitoring and evaluation systems; and by ensuring the

[4] *2005 Review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results* (Washington, D.C., IMF/World Bank, 19 August 2005).

participation of relevant domestic stakeholders and donors in discussions of national development priorities.

III. Mobilizing international resources for development: foreign direct investment and other private flows

13. Although private financial flows have become the most important source of external resources for developing countries, net outward transfers of financial resources to developed countries have steadily increased since the Asian crisis, reaching over $600 billion in 2005. In recent years the major source of those transfers has been strong current account surpluses and the parallel accumulation of international reserves of many emerging market economies. Only least developed countries, and especially HIPC countries, remained net recipients of net resource transfers.

14. Nonetheless, the resumption of the increase in net private capital inflows to developing countries observed in 2004 was sustained in 2005 at around $165 billion, and net flows to transition economies increased substantially from their 2004 level to over $40 billion. Those increases were primarily a result of increased direct investment, especially in Africa (see A/61/136).

15. Despite the relatively stable trend of private flows, financial markets of the developing countries remain subject to volatility in international interest rates and financial markets. While risk spreads remained broadly stable in 2005 and the first quarter of 2006, there has been increased instability in spreads and equity prices in many emerging markets since May 2006. A disorderly unwinding of the large global imbalances could produce a reduction in both private inflows and external surpluses, causing external financing constraints to tighten in a pro-cyclical manner.

16. In 2005, foreign direct investment (FDI) continued to be the largest component of net private capital flows to developing countries. In economies in transition direct investment inflows remained robust. While growth in global FDI inflows resumed in 2004 and accelerated in 2005, the share of developing countries and economies in transition increased to 37 per cent in 2004-2005 from 27 per cent in 2001-2003.[5] However, FDI flows remain concentrated in a few countries, and least developed countries in particular continued to receive relatively marginal sums of FDI, less than 5 per cent of all flows to developing countries in 2005.

17. Since the 1990s there has been rapid growth in outward FDI from developing countries and economies in transition and flows from those countries now account for more than one tenth of global FDI stock.[5] A small number of those countries, mainly middle-income countries and India, are becoming significant sources of outward FDI for other developing countries. That represents an opportunity for low-income and least developed countries to improve their access to FDI, as the transnational corporations of developing countries tend to invest in developing countries at a similar or lower level of development.

18. The Monterrey Consensus emphasized the need for developing countries to strengthen their efforts to attract productive investments and to mitigate their volatility. In collaboration with national and multinational partners, the World Bank

[5] See, United Nations Conference on Trade and Development, *World Investment Report 2006*.

Foreign Investment Advisory Service provides technical assistance and capacity-building services to strengthen investment frameworks, and the World Bank Independent Evaluation Group has recently produced a set of recommendations to improve the coordination and effectiveness of the World Bank Group's efforts to improve investment climates in developing countries.[6]

19. Those efforts to create a more attractive investment environment have produced a broad trend towards a greater liberalization of developing countries' policies towards FDI. However, moves away from liberalization have been observed recently in a number of countries, often linked to investment in natural resources. A number of developed countries have also raised reservations about direct investments by developing countries in what they consider strategic industries.

20. Investment to improve physical infrastructure such as transport, power and telecommunications is required to elicit increased foreign and domestic private investment in many developing countries. The public sector will continue to be a major source of financing for physical infrastructure but, given appropriate accounting of the commitment of Government resources, including contingent liabilities, public-private partnerships can also play an important role in that area. However, appropriate mechanisms to mitigate infrastructure investment risk are essential. The Multilateral Investment Guarantee Agency supports FDI in developing countries through the provision of political risk insurance and guarantees, and it has launched the Small Investment Programme, designed to promote South-South investment.

IV. International trade as an engine of development

21. The Monterrey Consensus emphasized the links between trade, development and finance. To benefit fully from a development-oriented global trading system, least developed countries, landlocked developing countries and small, vulnerable States, particularly in Africa, need greater access to developed countries' markets and financial assistance to remove supply-side constraints. That should play a crucial role in the specification of a country's national development strategy.

22. The Doha round, launched in November 2001, aimed "to ensure that developing countries, and especially the least developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development" (A/C.2/56/7, annex, para. 2). The 2005 World Summit Outcome thus called on Member States to work expeditiously towards implementing the development dimension of the Doha work programme.

23. At the Hong Kong ministerial meeting in December 2005, progress was made in a number of areas affecting least developed countries. Duty-free and quota-free market access to developed country markets was agreed on a lasting basis for at least 97 per cent of all products, defined at tariff line level, for exports of least developed countries starting in 2008 or no later than the start of the implementation period of the round. Developing countries in a position to enable the same access should also do so. It was also agreed that waivers granted under the General Agreement on Tariffs and Trade to least developed countries would be considered

[6] Independent Evaluation Group, *Improving Investment Climates: An Evaluation of World Bank Group Assistance* (Washington, D.C., World Bank, 2006).

"sympathetically" and "expeditiously", and donors, multilateral agencies and international financial institutions were urged to coordinate their work to ensure that least developed countries are not subject to conditionalities inconsistent with their rights and obligations under the World Trade Organization agreements. Least developed countries were to be allowed to deviate from obligations under the trade-related investment measures agreement until 2020, and their implementation of commitments for provision of additional technical and financial support would be consistent with their level of development.

24. Agreement was also reached to eliminate all export subsidies on cotton by the end of 2006, to make deeper and faster reductions in trade-distorting domestic subsidies for cotton production than those agreed under the general formula and to provide duty-free and quota-free market access to cotton from least developed countries from the commencement of the implementation period of the round.

25. In agriculture, export subsidies were to be eliminated by 2013, with a substantial portion to be lifted by 2010. There was also agreement to achieve effective cuts in trade-distorting domestic subsidies. Furthermore, ministers addressed flexibility in the use of food security, livelihood security and rural development to designate a number of products for special treatment, as well as the ability to trigger a special safeguard to protect their economies against imports in special circumstances.

26. The Hong Kong Declaration also endorsed a task force established in October 2005 by the Integrated Framework Steering Committee to report on a design for an "enhanced" Integrated Framework to enter into force no later than 31 December 2006. The task force has submitted its report.

27. The "Swiss formula" for tariff reductions, which would lead to more than proportionate reductions on higher tariffs, was adopted in the area of non-agricultural market access, although the technical details remained to be negotiated.

28. Ministers also endorsed the Aid for Trade Initiative and invited the World Trade Organization Director-General to establish a task force to address how it should be operationalized and to consult with members and relevant international institutions and organizations on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans. The Aid for Trade Initiative Task Force was established and has produced a report with recommendations on the scope, objectives and guiding principles for the Aid for Trade Initiative, as well as mechanisms to make it operational at the national, regional and global levels. The Aid for Trade Initiative would cover trade policy development (from the training of officials to support for the articulation of national policy), compliance with trade obligations, trade-related adjustments and infrastructure and the building of productive capacity. The Aid for Trade Initiative can most effectively support the development dimension of the round if it is viewed as complementary to increased trade opportunities for developing countries and provides additional, predictable, sustainable and effective financing to meet the increased needs of developing countries, in particular the least developed among them, for assistance to implement the new agreements (e.g., on trade facilitation), to ease adjustment costs and to benefit from new market access.

29. In the period since the Hong Kong Ministerial Conference, active negotiations in the areas of agriculture and non-agricultural market access have been held with

the intention of reaching an agreement by the end of 2006, as had been urged by the Secretary-General. However, divergent negotiating positions on the issues of market access, domestic support, sensitive products, special products and special safeguard mechanisms, in agriculture and on the application of special and differential treatment to developing countries, in non-agricultural market access, have meant that the deadlines agreed for establishing the modalities for commitments in those critical areas have been missed.

30. Despite the support of the Group of Eight at the Summit in Saint Petersburg, World Trade Organization members failed to eliminate the divergence of positions, particularly in the area of agriculture, and at a meeting on 27 July the General Council took note of the announcement by the Director-General that all areas of negotiations had been suspended to allow members time to review the situation, examine available options and review positions.

31. In practical terms, the suspension of the negotiations means that work in all negotiating groups will be suspended. It also means that the progress made to date on the various elements of the negotiating agenda, including those at the Hong Kong Ministerial Conference, are on hold. Failing a rapid resumption of negotiations and agreement on the modalities in agriculture and non-agricultural market access, it will not be possible to finish the Doha round by the end of 2006. Trade is a crucial component of the development partnership forged in Monterrey because the benefits accrue to all partners and are much greater and more permanent than either official assistance or debt relief. It is therefore important that the obvious economic rationale for exploiting the full development potential of the round be translated into similarly strong political support so that the negotiations can be resumed and completed as soon as possible.

V. Increasing international financial and technical cooperation for development

32. As a result of the commitments made in the Monterrey Consensus, the decline in the share of official development assistance (ODA) in developed-country gross national income (GNI) was reversed; it rose to 0.25 per cent in 2003 and 0.26 per cent in 2004. Preliminary estimates for 2005 show an increase to $106.5 billion, amounting to 0.33 per cent of the GNI of Organization for Economic Cooperation and Development (OECD) Development Assistance Committee donors. That figure includes over $20 billion in one-time items such as debt relief to Iraq and Nigeria, and tsunami emergency relief. However, if all current commitments are met by their target date, ODA is projected to reach $130 billion in 2010. According to OECD figures made available in 2006, in 2002 and 2003 over half of the increase in nominal ODA was destined for sub-Saharan Africa. Half of the committed increase of aid up to 2010 is also expected to be channelled to Africa.

33. Despite the positive trend since 2002, the current and projected levels of ODA for 2006-2010 still fall far short of the various estimates of the estimated $150 billion deemed necessary for the developing countries to attain the Millennium Development Goals. Since much of the recent increase in aid flows has been the result of debt relief and emergency assistance it does little to provide the higher aid levels essential for the scaling-up that will be necessary if developing countries are to meet the Millennium Development Goals.

34. As the United Nations Millennium Project report makes clear, meeting the Millennium Development Goals will require specific amounts of funding over specific time periods. The composition of ODA must thus be adapted to provide the finance for the specific expenditures needed to achieve the Goals. During the 1990s, the shares of debt relief, emergency aid and technical assistance in total aid flows have all been increasing. While these flows have important objectives, emergency aid is not designed to assist long-term development, and debt relief does not generally provide fresh money to debtor countries. Technical cooperation, in turn, provides a variety of inputs towards development results, but its impact in closing financial gaps is hard to gauge. Consequently, despite the recent recovery in recorded donor contributions, ODA has been a declining source of budgetary resources for the developing countries, limiting their efforts to pursue the Millennium Development Goals. The call to increase ODA should thus be qualified to refer to increasing resources channelled through the budgets of recipient countries, particularly to enable the full application of the principles of ownership and alignment. That means, in turn, that the proportion of aid channelled through the budgets of recipient countries should be strictly monitored and should become a specific target of international assistance.[7]

35. Moreover, not only does ODA have to increase substantially in order for the developing countries to have a better chance of achieving the Millennium Development Goals, it is essential that ODA be directed principally to the poorest and least developed among the developing countries. With the adoption of the Programme of Action for the Least Developed Countries for the 1990s by the Second United Nations Conference on the Least Developed Countries in September 1990, developed countries had agreed that, within their 0.7 per cent overall ODA target, they would provide at least 0.15 to 0.20 per cent of their GNI to assist the least developed countries. A few individual donors met that target, but aggregate ODA flows to the least developed countries declined to about half the target during the 1990s. The trend since Monterrey has been more positive: ODA to least developed countries has increased sharply in recent years. However, a careful look at the composition indicates that the amount of aid for least developed countries in 2004, after exclusion of the emergency, debt relief and reconstruction components, was lower in real terms than the figure for 1990.

36. There is an emerging consensus among donors and recipient Governments on the actions required to foster better development results. The process towards greater mutual accountability for development results has gained significant momentum since the Monterrey Conference, in particular with the Rome High-level Forum on Harmonization and the Paris High-level Forum on Joint Progress towards Enhanced Aid Effectiveness. At the latter meeting twice as many countries and new donor countries participated as in Rome, and for the first time civil society representatives and parliamentarians were also involved. Over 100 countries as well as development institutions committed themselves to a practical blueprint to provide aid in more streamlined ways, and to improve accountability by monitoring the blueprint's implementation.

37. The Paris Declaration on Aid Effectiveness set out five major principles of aid effectiveness: (a) ownership of development strategies by partner developing

[7] See *World Economic and Social Survey, 2005: Financing for Development* (United Nations publication, Sales No. E.05.II.C.1), chap. IV.

countries; (b) alignment of donor support with those strategies; (c) harmonization of donor actions; (d) managing for results; and (e) mutual accountability of donors and partners. The Declaration also contained some 50 commitments to improve aid quality, which were to be monitored by 12 indicators. Subsequently, the OECD Development Assistance Committee Working Party reached agreement on targets for all of the indicators.

38. In addition, the European Union has announced its own additional set of targets, including reducing the number of uncoordinated missions by 50 per cent, channelling half of Government assistance through country assistance, providing all capacity-building through coordinated programmes, resorting more frequently to multi-donor arrangements and avoiding the establishment of new project implementation units.

39. Besides areas covered by the Paris Declaration targets, there are several other possibilities for improvement in aid effectiveness. First, a follow-up to the commitments made at the 1995 World Summit for Social Development, where donors pledged to spend 20 per cent of ODA on basic social services in developing countries, is still needed. Also, despite the increasingly available evidence of the adverse effects of tied aid, the issue remains to be effectively tackled. Although there is an indicator (the eighth) in the Paris Declaration on untying aid, agreement could be reached only on a target of "continued progress over time" in reducing tied aid. While substantial progress has been made in untying aid, it continues to have a high cost: in 2002, it reduced the value of bilateral aid by at least $5 billion.

40. Although political commitment has increased towards stronger and wider-ranging cooperation among developing countries, concern has been raised about the unevenness of those efforts. To address the challenge, the United Nations, through the Special Unit for South-South Cooperation and in partnership with other agencies and relevant stakeholders, has launched initiatives to enhance the possibilities of cooperation among developing countries to meet the internationally agreed development goals, including the Millennium Development Goals (see DP/2006/21, DP/CF/TCDC/2 and EXTENSION 1).

41. Initiatives to promote South-South cooperation related to the prevention of and recovery from natural disasters have also been promoted, such as facilitation of assistance from other developing countries for the rehabilitation projects undertaken in the wake of the tsunami disaster in December 2004. Further calls from the international community relate to the expansion of support for triangular cooperation.

42. An international conference on innovative sources of financing, under the auspices of the French Government, was held in Paris on 28 February and 1 March 2006. The conference considered concrete proposals for pilot projects geared to generating additional, and ensuring a more effective deployment of, resources for development, particularly for nutrition and health. At the conference a leading group on solidarity levies to fund development was formed, and a decision was taken by the participants to convene a "forum on innovative financing for development" in 2007.

43. Among the proposals in the most advanced state of implementation is a solidarity contribution on air travel tickets. The solidarity contribution is to be introduced by establishing or raising existing airport taxes and charges since

collection costs are minimal, and national tax sovereignty is not affected. The contribution is expected to have little impact on utilization and revenues in the air transportation industry. Three countries (Chile, France and the United Kingdom of Great Britain and Northern Ireland) have made progress towards implementing an air ticket contribution in 2006. Chile implemented a $2 surcharge on international air departures in January 2006. Similarly, France introduced a contribution on air tickets from July 2006 that is expected to generate revenue of up to €200 million per year. The United Kingdom has also indicated that it will allocate some of the revenue from its existing air passenger duty to health development projects.

44. Another pilot scheme, the International Finance Facility for Immunization (IFFIm), which could raise $4 billion over 10 years, is currently being implemented. It has been estimated that 5 million lives could be saved by 2015 by frontloading $4 billion over 10 years through IFFIm, in support of the work of Global Alliance for Vaccines and Immunization. Eight countries currently participate in IFFIm: Brazil, France, Italy, Norway, South Africa, Spain, Sweden and the United Kingdom. Contributions from the Gates Foundation are to be provided also. South Africa announced that it would contribute $1 million a year over 20 years to IFFIm and Brazil announced that it would contribute the same amount.

45. Other pilot projects under way or in advanced stages of planning are the establishment of advanced market commitments, originally proposed by Italy, to encourage the development of new vaccines, and the proposal for a "humanitarian lottery to free children from hunger", presented by the World Food Programme.

VI. External debt

46. As of June 2006, 19 countries have reached completion point, and 10 countries have reached the decision point under the enhanced HIPC Initiative. The total cost of debt relief committed under the HIPC Initiative for the 29 countries is estimated at $41.3 billion in end-2005 net present value (NPV) terms, to be divided equally between multilateral and bilateral creditors.[8] A total of 23 multilateral creditors have pledged to accord HIPC debt relief to the 29 countries, estimated at $20.7 billion, in 2005 NPV terms. Donors have pledged and contributed $3.6 billion to the HIPC Trust Fund, which is administered by IDA and provides support to several multilateral development banks and other regional and subregional creditors. Paris Club creditors have pledged to accord debt relief of about $15.2 billion, in end-2005 NPV terms, to the 29 countries, and most Paris Club members have promised to provide additional debt relief beyond that required under the enhanced HIPC Initiative. The cost of debt relief to the 29 decision-point HIPCs attributable to the 54 non-Paris Club official bilateral creditors is estimated at $3.8 billion in end-2005 NPV terms, but the participation of these creditors in the Initiative has been low. Most commercial creditors have not committed themselves to providing debt relief, although their share in total HIPC Initiative debt relief is small, that is, less than 4 per cent; moreover, many of them have also not provided traditional debt relief.[9]

[8] International Monetary Fund and International Development Association, "Heavily Indebted Poor Countries (HIPC) Initiative-Statistical Update", 21 March 2006, p. 5.

[9] Ibid., p. 6.

47. The number of countries eligible for debt relief under the enhanced HIPC Initiative, however, has increased as a result of the decision in September 2004 by the Executive Boards of IDA and IMF to extend the enhanced HIPC Initiative's "sunset clause" to end-2006 and to "ring-fence" its application to countries satisfying the Initiative's income and indebtedness criteria using end-2004 data. In April 2006, the Executive Boards endorsed and closed the list of 11 countries that satisfy the Initiative's two criteria and that might wish to avail themselves of the Initiative.[10] The cost of the HIPC debt relief to these identified countries is estimated at $21 billion, in end-2004 NPV terms, equally divided between multilateral and bilateral creditors. The 11 countries have a mixed record of implementing macroeconomic policies supported by IMF and IDA, but most are reporting progress with their poverty reduction strategies. The enhanced HIPC Initiative is scheduled to end operations at the end of December 2006, and that could mean that some debt-distressed developing countries would not be able to benefit from HIPC Initiative debt relief if they have not met policy-related eligibility criteria by that date. The two Executive Boards will consider options to address the problem in the coming months.

48. The July 2006 Group of Eight Summit proposed that IMF, IDA and the African Development Fund cancel 100 per cent of their claims over the poorest developing countries, most of which are located in Africa. In December 2005, IMF decided that all member countries with a per capita income below $380, as well as all post-completion point HIPCs, would be eligible for such relief from the Fund under the Multilateral Debt Relief Initiative (MDRI).[11] As at 1 July 2006, the Fund had granted $3.7 billion in debt relief to 21 countries under the Initiative.[12] In April 2006, IDA participation in the MDRI was assured when the IDA Board of Governors approved the 40-year term debt cancellation package totalling $37 billion for 17 countries, mostly from Africa.[13] The debt cancellation, designed to cover IDA credits disbursed before the end of 2003 and still outstanding at the time of qualification, started on 1 July 2006.

49. It has been suggested that similar relief could be extended to qualified borrowers from other official institutions. In April, the Inter-American Development Bank created a committee of the Board of Governors to consider participation in the

[10] See International Monetary Fund and International Development Association, "Heavily Indebted Poor Countries (HIPC) Initiative — List of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at end-2004", 11 April 2006, and the associated Public Information Notice No. 06/41. The 11 countries identified in the paper include seven countries that were previously determined to be potentially eligible for HIPC debt relief (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan and Togo), and four additional countries (Eritrea, Haiti, Kyrgyzstan and Nepal). As at April 2006, Bhutan, the Lao People's Democratic Republic and Sri Lanka met the income and indebtedness criteria at end-2004 but decided not to avail themselves of the HIPC Initiative. Even if the list is closed, it could still be amended to add countries whose data are determined to meet the relevant thresholds as at end-2004.

[11] The debt eligible for MDRI relief from the Fund is that outstanding as at end-2004 and still outstanding at the time of qualification.

[12] The 21 countries that received debt relief under MDRI from IMF are Benin, Bolivia, Burkina Faso, Cambodia, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, the Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda and Zambia.

[13] The 17 countries receiving 100 per cent debt relief under MDRI from IDA are: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, the Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia.

Multilateral Debt Relief Initiative for the debt of Bolivia, Guyana, Haiti, Honduras and Nicaragua.

50. However, for some developing countries the amount of full and irrevocable debt relief upon reaching the completion point of the HIPC Initiative has not been sufficient to ensure sustainable debt levels. Indeed, the inability of developing countries that have graduated from the HIPC programme to remain free from debt distress has been one of the main criticisms of the HIPC Initiative. According to the World Bank Independent Evaluation Group,[14] although the $19 billion of debt reduction under the Initiative has halved debt ratios in 18 countries that had reached completion point by 2005, the key indicator of their external debt sustainability had worsened in 11 of 13 post-completion point countries. In eight of those countries the ratios again exceed HIPC Initiative thresholds. Changes in discount and exchange rates have contributed to the deterioration of the debt ratios, and new borrowings have offset improvements in exports and resource mobilization. Six of the eight post-completion point countries with new debt sustainability analyses have been found to have only a moderate risk of debt distress, but all are deemed vulnerable to export shocks and continue to need concessional resources and sound debt management.[15] The Group's report concludes that debt reduction alone is not sufficient to bring developing countries with heavy debt burdens onto a path of debt sustainability. To achieve debt sustainability the countries would need, inter alia, sustained improvements in fiscal management, financing terms and public debt management.

51. However, the HIPC Initiative has channelled additional development resources to qualifying countries. According to the Evaluation Group's report, net transfers to HIPC countries doubled between 1999 to 2004, while transfers to other developing countries grew by only one third. The report also found that post-completion point countries started out with higher ratings on some policy criteria than other low-income countries, and that they continue to score higher. On the other hand, those countries that have not yet reached the completion point have the lowest score, on average, of all low-income countries; consequently, they are likely to face serious problems in managing their economies, undermining their prospects of reaping the maximum benefits from debt relief.[15]

52. The Paris Club continues to play an active role in the HIPC process, as well as in providing avenues for debt relief for low- and middle-income countries that do not qualify for HIPC treatment. The Evian Approach, established in October 2003 for non-HIPCs in need of debt relief, has been applied to nine countries to date, including Iraq. In October 2005, the Paris Club provided Nigeria with Naples-terms debt reduction on eligible debts and a buy-back at a market-related discount on the remaining eligible debts. The agreement was supported by a policy support instrument, the first approved by the International Monetary Fund after the instrument was established in July 2005.

53. Other middle-income countries with good external performances, such as Brazil and the Russian Federation, have used their increasing reserves to prepay outstanding debts to Paris Club creditors.

[14] World Bank Independent Evaluation Group, *Debt Relief for the Poorest: An Evaluation Update of the HIPC Initiative* (World Bank, Washington, D.C., 2006), p. xi and table 3.3, p. 17.

[15] Ibid., p. xii.

54. In order to detect emerging debt-related vulnerabilities and prevent unsustainable debt build-ups, IMF and IDA have recently adapted the existing Debt Sustainability Framework (DSF) to the specific circumstances of low-income countries. The results of debt sustainability analyses, based on the framework, are used by a number of creditors to guide their lending decisions. IDA, in particular, uses DSF to determine the distribution between loans and grants of its financial support to a given country. The Paris Club also uses DSF to guide the terms of its debt relief under the Evian approach. However, the new DSF still focuses on debt sustainability and associated vulnerabilities and not on the financial needs to achieve the Millennium Development Goals. A recent study[16] of 43 debt-stability analyses included in a recent IMF/IDA review[17] found only six that mentioned the Millennium Development Goals, and only one of them included a direct costing of the required expenditures. An alternative approach focused on the Millennium Development Goals would determine debt service by the residual resources remaining after providing for expenditures needed to achieve human development goals and the Millennium Development Goals.[18]

VII. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development[19]

55. Enhancing multilateral dialogue and policy cooperation on key systemic issues, improving the governance structure of the international financial institutions and clarifying the role of official financing of emerging markets have been the focal points of recent discussions directed towards strengthening the international financial system. Also, much attention continued to be paid to several important regulatory initiatives, including preparations for the implementation of a revised capital adequacy framework (Basel II).

56. To strengthen international policy coordination, the IMF member countries agreed at the 2006 spring meetings to establish a new process of multilateral consultations on issues of systemic importance. It will bring together the key systemic members of the global economy and, where relevant, entities formed by groups of countries. The first such consultations, involving China, the countries of the euro area, Japan, Saudi Arabia and the United States of America, will focus on the issue of global imbalances. The challenge is to translate the discussions into effective joint policy actions.

57. The effectiveness of multilateral dialogue will depend on adequate voice for and participation of all countries. After several years of extensive deliberations, a two-stage approach to the IMF governance reform, in which ad hoc quota increases

[16] Coopération internationale pour le développement et la solidarité (CIDSE), "The New World Bank/IMF Debt Sustainability Framework: A Human Development Assessment", CIDSE background paper, April 2006, p. 5.

[17] International Monetary Fund and International Development Association, "Heavily Indebted Poor Countries Initiative, Status of Implementation", 19 August 2005.

[18] CIDSE, op. cit.

[19] For a more detailed discussion of systemic issues, see report of the Secretary-General on the international financial system and development, submitted to the General Assembly at its sixty-first session.

for the most underrepresented countries would be agreed in the near term, seems to have major support. Such increases should be considered at the annual meeting in Singapore in September 2006. Other more complex issues, such as reform of a quota formula and consequential realignment of quotas; reform of basic votes; the roles, responsibilities, size and composition of the Executive Board; and the process of selection of senior management, would be taken up at a later stage. For that approach to produce results, it is clear that the second stage must be credibly linked to the first and have a clearly specified timetable for action. There have been suggestions that other intergovernmental bodies should also consider their governance structures (A/61/81-E/2006/73, para. 12).

58. In a number of emerging market countries, despite strong policies and increased reserve holdings, underlying structural vulnerabilities still exist. That calls for a further exploration of appropriate international and regional financial instruments to help prevent and manage crises. Using official financing for crisis prevention remains among the most important unresolved issues. Since the expiration of the contingent credit line in November 2003, IMF has been exploring other ways to achieve the line's basic objectives. The IMF Strategic Review proposed a new high-access contingent financing vehicle.[20] The new instrument would be available to members with strong macroeconomic policies, sustainable debt and transparent reporting, but which still face balance-sheet weaknesses and vulnerabilities. Access would normally be up to 300 per cent of quota, automatically available in a single up-front purchase, and augmentable upon subsequent review.

59. There have also been proposals supported by the International Monetary and Financial Committee (IMFC) to explore possibilities for more interaction between the Fund and regional financing or reserve pooling arrangements. It has been argued that the Fund can play a more important role here, focusing on surveillance of pool members and signalling sound policies.

60. A series of recent international, regional and national regulatory initiatives, including in bank regulation and supervision, accounting, auditing, corporate governance, data dissemination and money-laundering, is now at or close to the implementation stage. Many developing countries are thus facing multiple reform goals with only limited financial and implementation capacity. Therefore, prioritization and technical assistance are important in meeting the challenge of strengthening the domestic financial system.

61. The Committee of Experts on International Cooperation in Tax Matters, established by the Economic and Social Council in its resolution 2004/69 and consisting of 25 experts appointed by the Secretary-General upon nomination by their Governments, serving in their personal capacity, met in Geneva from 5 to 9 December 2005. The first session was also attended by 64 observers from Governments, intergovernmental bodies and academic and non-governmental organizations. The agenda of the session included: (a) treaty abuses and treaty shopping; (b) mutual assistance in collecting tax debts; (c) international tax arbitration; (d) earnings stripping; (e) taxation of income derived by participants in development projects; (f) modified permanent establishment definition; (g) revision of the United Nations Model Double Taxation Convention between Developed and

[20] "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy", IMF, 5 April 2006 (available at http://www.imf.org).

Developing Countries; and (h) review and adoption of the revised draft Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries. On the basis of the discussion of the above-mentioned topics, the Committee produced a report (E/2005/45) containing its conclusions and recommendations for consideration by the Economic and Social Council and the Council approved the conclusions of the report.[21]

VIII. Staying engaged

62. As noted above, the 2005 World Summit reaffirmed the Monterrey Consensus as the reference point for global partnership for development. It called for greater cooperation among existing institutions, with due regard to their respective mandates and governance structures, and all relevant stakeholders in the financing for development process.

63. The ninth special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development was held in New York on 24 April 2006. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus and the 2005 World Summit Outcome". The four sub-themes that were the focus of substantive discussions in four parallel round tables were: (a) implementation of and support for national development strategies towards the achievement of the internationally agreed development goals, including the Millennium Development Goals; (b) fulfilling the development dimension of the Doha work programme: next steps, including in the area of "aid for trade"; (c) external debt: implementing and building on current initiatives to enhance debt sustainability; and (d) supporting the development efforts of middle-income developing countries. The meeting had before it a background note provided by the Secretary-General (E/2006/48).

64. A record number of executive and alternate directors of the Boards of the World Bank and of IMF participated in the 2006 meeting. Other participants included ministers, vice-ministers and high-level officials in the areas of finance, foreign affairs and trade and development cooperation, as well as heads and senior managers of international organizations (see E/2006/INF/1). Representatives of civil society and the private sector were also actively engaged in the plenary meetings and round tables. The summary by the President of the Council (A/61/81-E/2006/73) reflects observations, analyses, initiatives and recommendations put forward by participants during the meeting. In his concluding remarks, the President proposed to initiate consultations with all stakeholders on how to enhance the impact of the spring meeting. The Council endorsed that proposal and defined specific objectives of the consultations.[22]

65. The 2006 meeting was held after an unprecedented number of preparatory events organized by the multiple stakeholders in the financing for development process, both in New York and Washington, D.C. A panel discussion on "Fiscal space and national development strategies" was held on 17 March 2006 at Headquarters, under the chairmanship of the President of the Council. In the run-up

[21] See E/2006/L.36 for the draft resolution.

[22] See E/2006/L.34 for the draft resolution.

to the annual spring meetings of IMFC and the Development Committee in Washington, D.C., a large group of non-governmental organizations, including the New Rules for Global Finance Coalition, Action Aid International, African Forum and Network on Debt and Development, European Network on Debt Development, Coopération internationale pour le développement et la solidarité, Rede Brazil and many others, sponsored a series of interactive seminars, workshops and panel discussions on financing for development, which took place on 20 and 21 April 2006 at the World Bank. Summaries of those discussions are posted on the financing for development website at http://www.un.org/esa/ffd/ffdspecialevents.htm.

66. In addition, the World Economic Forum convened two meetings in Washington, D.C., to launch the final report on the multi-stakeholder consultations held in 2004-2005 on "Building on the Monterrey Consensus: the untapped potential of development finance institutions to catalyse private investment". On 20 April 2006, the report was presented at the National Press Club, with the participation of leading policy experts, Government officials and business executives. A follow-up panel discussion, held at the World Bank on 21 April 2006, included Executive Directors of the Bank, senior Government officials and business leaders.

67. Another meeting was organized by the Department of Economic and Social Affairs and the United Nations Development Programme on 21 April 2006 at IMF to examine the viability of gross domestic product-linked bonds as a financial instrument to limit the cyclical vulnerabilities of developing countries and reduce the likelihood of defaults and debt crises. The meeting built on the findings of a workshop on gross domestic product-indexed bonds, held on 25 October 2005 in New York. Participants at both meetings included ministers of finance, high-level Government officials, senior managers of multilateral organizations, leading players from the private sector and reputed academic experts. Further work is envisaged on the issue, building on the meetings' outcome.

68. Pursuant to General Assembly resolution 60/188, the Financing for Development Office continues to organize, within its mandate, workshops, multi-stakeholder consultations, panel discussions and other activities aimed at better enabling Member countries to implement their commitments as agreed in the Monterrey Consensus. One track of these multi-stakeholder consultations, scheduled for 2006-2007, focuses on the potential of national development banks in promoting economic and social development. The process engages national development banks, regional development bodies, international financial institutions, civil society, academia and the private sector. Following an agenda-setting expert group meeting, held on 1 and 2 December 2005 in New York, regional consultations were held on 12 and 13 June 2006 in Lima on "Challenges of national development banks in Latin America" and on 27 and 28 June 2006 in Paris on "The role of national and regional development banks in Africa". Subsequent consultations are being planned for other regions. The outcome of those consultations will be reported to the 2007 High-level Dialogue on Financing for Development.

69. Another set of multi-stakeholder consultations is on the theme "Financing access to basic utilities for all". The project is managed by the Friedrich Ebert Foundation, in cooperation with the Financing for Development Office. Utility providers, experts from the public and private sectors and international financial institutions, as well as civil society and academia, will be invited to take part in the discussions. An expert group meeting, held on 26 and 27 June 2006 in New York,

helped to shape the substantive agenda for future consultations planned for 2006-2007 in Latin America, Africa and Asia.

70. Business representatives involved in the financing for development process have shown interest in organizing multi-stakeholder consultations in the area of promoting entrepreneurship. A workshop on "Fostering entrepreneurship" was organized by the Junior Chamber International on 9 June 2006 in Monastir, Tunisia. Preparations are under way, in cooperation with The Indus Entrepreneurs, for an expert group meeting and a panel discussion on the potential of diasporas for strengthening entrepreneurship in developing countries, to be held in October 2006. Information on all tracks of multi-stakeholder consultations can be obtained at http://www.un.org/esa/ffd/MSC.